Office - Supreme Court, U.S.
FILED
DEC 7 1983
ALEXANDER L. STEVAS,
CLERK

No. 83-777

IN THE

Supreme Court of the United States

October Term, 1983

CLARK EQUIPMENT COMPANY,
Petitioner,

vs.

LOUIS J. KELLER and CYRIL N. KELLER,
Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

MALCOLM L. MOORE
HERMAN H. BAINS
Williamson, Bains, Moore & Hansen
608 Building, Suite 668
Minneapolis, Minnesota 55402
(612) 332-2587
Attorneys for Respondents

1983—Northwest Brief Printing Co., 3010 2nd St. No., Minneapolis 55411—588-7506

TABLE OF CONTENTS

	Page
Statement of the Case	1
Reasons for not Granting the Writ	3
1. The Question Asserted does not Truly Arise as Presented	3
2. There is no Conflict with Federal Patent Policy	5
Conclusion	10

TABLE OF AUTHORITIES

Cases:

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) 6, 7, 8, 9

Goldstein v. California, 412 U.S. 546, 178 U.S.P.Q. 129 (1973) 8

Keller et al v. Clark Equipment Company et al, 210 U.S.P.Q. 742, 746-747 (D.N.D. 1981) 2, 3, 4

Kewanee Oil Company v. Bicron Corporation et al, 181 U.S.P.Q. 673, 416 U.S. 470 (1974) 8, 9

Lear, Inc. v. Adkins, 395 U.S. 653, 656 (1969) 6, 7, 8, 9

Louis J. Keller and Cyril N. Keller v. Clark Equipment Company, and Clark Equipment, A.G., 715 F.2d 1280, 1284-1285 (8th Cir. 1983) 2

Sears, Roebuck v. Stiffel Co., 376 U.S. 225 (1964) 6, 7, 8, 9

Other Authorities:

35 U.S.C. 102(b) 3, 9

U.S. Const. Art. I, §8, cl. 8 5

IN THE

Supreme Court of the United States

October Term, 1983

No. 83-777

CLARK EQUIPMENT COMPANY,
Petitioner,

vs.

LOUIS J. KELLER and CYRIL N. KELLER,
Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

NOW COME Respondents, Louis J. Keller and Cyril N. Keller, and respectfully pray that the petition of Clark Equipment Company for a writ of certiorari to the United States Court of Appeals for the Eighth Circuit be denied.

STATEMENT OF THE CASE

Petitioner Clark Equipment Company's (hereinafter "Clark") statement sets forth in some detail the procedural history and factual background of this extended litigation which commenced with the filing by Clark of its declaratory judgment action in the United States District Court for the Western District of Michigan in 1972.

Some of the statements made by Clark are really argumentative and do not conform to the uncontested findings and conclusions of the District Court.[1]

The procedural history of this litigation is accurately set forth in the published decisions of the District Court and of the Court of Appeals for the Eighth Circuit. *Keller et al* v. *Clark Equipment Company et al*, 210 U.S. P.Q. 742, 746-747 (D.N.D. 1981)[2] and *Louis J. Keller and Cyril N. Keller* v. *Clark Equipment Company, and Clark Equipment, A.G.*, 715 F.2d 1280, 1284-1285 (8th Cir. 1983).[3] The findings of fact of the District Court relating to the negligence in the late filing of the application for the '117 patent and the conclusions of law set forth thereafter appear at 210 U.S.P.Q. 759-766 (A 73-95). On appeal to the Eighth Circuit, Clark asserted error with respect to the determinations that Melroe was negligent in not timely filing the application for the '117 patent and that Clark assumed the liability for that negligence when it purchased Melroe in 1969. Clark also placed heavy reliance in its appeal on the applicable North Dakota statute of limitations as an alleged bar to the Kellers' negligence action. *Keller* v. *Clark*, supra, 715 F.2d 1282, 1285-1287 (A 1, 10-13). The Eighth Circuit Court of Appeals affirmed the District Court as to all issues raised on appeal.

---

[1]For example, the discussion at pages 3-4 of the Petition of Clark's relationship with its licensees, the reference to the unidentified letter "discovered in the Melroe files," and the alleged theory on which Clark elected to sue the Kellers rather than the unidentified infringing competitors for the most part find no support in the record.

[2]The District Court decision is reproduced in the Appendix to Clark's Petition commencing at A-26. The Appendix pages corresponding to those referenced above are A 36-37. Similar references to the Appendix appear hereinafter.

[3]The Eighth Circuit Court of Appeals decision is reproduced in the Appendix to Clark's Petition commencing at A-1. The Appendix pages corresponding to those referenced above are A 7-9.

REASONS FOR NOT GRANTING THE WRIT

1. The Question Asserted does not Truly Arise as Presented.

Clark has presented a single question in support of its petition which is misleading and which does not truly and accurately reflect the record below. That question is so stated as to give the erroneous impression that the District Court and Eighth Circuit Court of Appeals somehow misused state tort law in such a way as to require Clark to continue paying royalties under an invalid patent. Hence, argues Clark, there is a conflict with federal patent policy.

That is simply not the situation presented by the record below. The Kellers sought in their counterclaim against Clark, and the District Court correctly granted, relief from Melroe's negligence in the late filing of the application for the '117 patent. *Keller* v. *Clark*, supra, 210 U.S.P.Q. at 747, 766, 769-770. (A 39-40, 94-95, 102-106).

As the trial court found, and the Eighth Circuit affirmed, the tortious act of failing to timely file the application for the '117 patent damaged the Kellers. The '117 patent was held to cover a patentable invention; it was declared invalid only on the grounds of a statutory bar under 35 U.S.C. 102(b) arising from the failure of Melroe to file the application within one year from the date that Melroe first offered for sale the Bobcat loader embodying the '117 patent claims. *Keller* v. *Clark*, supra, 715 F.2d at 1285. (A 9).

The wrong suffered by the Kellers as a result of the negligence of Melroe became actionable in 1972 when Clark ceased paying royalties to the Kellers under its 1971

license agreement with them. *Keller* v. *Clark*, supra, 210 U.S.P.Q. at 766 (A 95-96); 715 F.2d at 1285-1287 (A 10-17). It was not until that date that the Kellers were damaged by the tortious act of negligence for which the courts below held Clark liable on the basis of the terms and conditions under which it acquired Melroe.

The decisions below thus awarded the Kellers damages for the injury suffered through the destruction of their property rights in the '117 patent. *Their 1971 license agreement with Clark was relied upon only as a measure of those damages.* There has been no enforcement of an invalid patent. This clear nature and impact of the proceedings below is best reflected by the following language from the decision by the District Court, affirmed by the Eighth Circuit:

> "There can be little question that at the time the patent application was untimely filed, a reasonable person in the place of Clifford Melroe would reasonably have anticipated economic injury to the Kellers. The court has determined that but for Melroe's negligence, the patent would have been timely filed. It is also apparent, that but for the fact the patent was untimely filed, the Kellers would have benefited from their license agreement with Clark. The court concludes that the measure of damages in this case is the amount of lost royalties which the Kellers, but for the negligence of Melroe, would have been entitled to receive under the 1971 license agreement from the time they quit receiving royalties in 1972 until the 117 patent would expire in 1983."

210 U.S.P.Q. 742, 775 (A 119).

On appeal to the Court of Appeals, Clark did not contest the measure of damages found by the District Court.

Clark does not now contest the rulings of the Court of Appeals affirming the District Court on the statute of limitations and negligence issues presented to the Eighth Circuit.[4] Clark has thus in effect acknowledged that Melroe was negligent in not timely filing the application for the '117 patent, and that the Kellers were damaged by that negligence. Moreover, Clark does not take exception in its petition to the findings and conclusions below that it assumed liability for the resulting tort through the express terms of its acquisition agreement with Melroe and by way of a *de facto* merger.

Now, as its final attempt to avoid liability for the tortious injury incurred by the Kellers, Clark seeks to raise for the first time in the eleven year history of this litigation a question of conflict with federal patent policy which does not in reality exist.

2. There is no Conflict with Federal Patent Policy.

Clark asserts that the decision of the Eighth Circuit Court of Appeals, affirming a judgment based on state tort law, clashes with the objectives of the federal patent laws. As noted above, this alleged conflict is based on a mischaracterization of the record below, and simply does not exist.

As Clark has correctly noted, Article I, §8, cl. 8, of the Constitution does provide the constitutional basis for the patent laws enacted by Congress. The objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property was to ". . . promote

[4]The issues raised by Clark on its appeal to the Eighth Circuit are noted and discussed by the Court at 715 F.2d 1282, 1285, 1287, 1289, and 1291. (A-1, 10, 13, 17, and 23-24).

the progress of science and useful arts." The patent laws promote such progress by offering a right of exclusion for a limited period for inventions that are significant advances in the art. Such rights embodied in patent grants are in the nature of personal property rights.

The '117 patent reflects such progress through the Kellers' contribution to the design and the development of the Bobcat loader. That loader development has generated a multimillion dollar industry, and Clark has been a principal beneficiary of this commercial success story. The purpose and intent of the Constitution to reward inventors has been thwarted through the negligent acts of Clark's predecessor-in-interest, Melroe, in not timely filing the application for the '117 patent. It was that tortious act which destroyed the Kellers' property rights in the otherwise patentable invention embodied in the '117 patent. The redress for that wrong provided by the damages awarded by the District Court does not constitute any kind of violation of the aforesaid Constitutional provisions or of federal patent policy evolved to fulfill those provisions.

In contending that the Kellers have no remedy for the destruction of their property rights in the '117 patent because of an alleged conflict with federal patent policy, Clark relies on *Lear, Inc.* v. *Adkins*, 395 U.S. 653, 656 (1969); *Sears, Roebuck* v. *Stiffel Co.*, 376 U.S. 225 (1964); and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). Clark's reliance on those cases is misplaced.

Under the doctrine of *Lear* v. *Adkins*, supra, a licensee is permitted to challenge the validity of the licensor's patent. That doctrine has been given full effect. Clark with-

held royalties from the Kellers and succeeded in having the '117 patent declared invalid. However, that patent was declared invalid only on the grounds of the negligent failure by Melroe to timely file the application for the patent; and Clark assumed the liability for that negligence when it purchased Melroe in 1969. There is nothing in the *Lear* decision which would allow a licensee to escape its royalty obligations by relying on the misfeasance of its predessor-in-interest to invalidate the licensor's patent.

Clark erroneously asserts that the decisions in *Sears, Roebuck* v. *Stiffel Co.* and *Compco* v. *Day-Brite Lighting, Inc.*, supra, somehow preclude the enforcement of any tort law which touches in any way upon federal patent grants. No such broad holding flows from those decisions. In both *Sears* and *Compco*, there was an attempt to enforce alleged proprietary rights in unpatentable or unpatented articles under state unfair competition laws. It is true that under the holdings in *Sears* and *Compco*, unpatentable or unpatented articles cannot be removed from the public domain by state unfair competition law. However, neither *Sears* nor *Compco* offers a shield for one who negligently destroys the property right of another in an otherwise meritorious patent by failing to timely file a patent application. The Kellers have not sought and do not seek any enforcement of a proprietary right outside of a valid patent. They sought, and have properly been awarded, damages which were proximately caused by Clark-Melroe's destruction of proprietary patent rights.

Clark urges an extension of the federal patent policy established in *Sears, Compco*, and *Lear* to pre-empt state tort law of negligence, and preclude recovery by a licensor from a licensee who negligently causes the loss of rights

in an otherwise patentable invention. The decision of this Court in *Kewanee Oil Company* v. *Bicron Corporation et al,* 181 U.S.P.Q. 673; 416 U.S. 470 (1974) directly refutes the erroneously broad concept of federal patent policy asserted by Clark. In that case, the Court held that Ohio trade secret law is not pre-empted by federal patent law. Misappropriation or theft of a trade secret is an act of malfeasance sounding in tort. Enforcement of trade secret protection under state tort law was deemed to be permissible and not in conflict with or precluded by federal patent policy.

In *Kewanee* the Court reiterated the policy of the patent law enunciated in *Lear, Sears,* and *Compco,* supra, to the effect that the States may not properly take any action which would remove from the public domain subject matter which properly belongs there. The Court further noted in *Kewanee* that in *Goldstein* v. *California,* 412 U.S. 546, 178 U.S.P.Q. 129 (1973), it had held that the cl. 8 grant of power to Congress was not exclusive, and that at least in the case of writings the States were not forbidden from encouraging and protecting the efforts of those within their borders by appropriate legislation. The Court went on to make the following pertinent statement with respect to federal patent policy:

> "Just as the States may exercise regulatory power over writings so may the States regulate with respect to discoveries. States may hold diverse viewpoints in protecting intellectual property relating to invention as they do in protecting the intellectual property relating to the subject matter of copyright. The only limitation on the States is that in regulating the area of patents and copyrights, they do not conflict with the operation of the laws in this area passed by Con-

gress, and it is to that, more difficult question we now turn."

Kewanee Oil Company v. *Bicron Corp.*, supra, 181 U.S.P.Q. at 677.

The decision of the Eighth Circuit in this case does not remove from the public domain any subject matter which properly belongs there, in opposition to the federal patent policy enunciated by this Court. The subject matter of the '117 patent did not enter the public domain because of lack of invention or forfeiture by the Kellers under 35 U.S.C. 102(b). The inventive subject matter was lost only because of the negligence attributable to Clark in the late filing of the application for the '117 patent. There is no federal policy which favors the destruction of one's property by another through misfeasance. There is no support in *Sears, Compco,* and *Lear* for such a proposition. The Eighth Circuit properly upheld the application of state tort law in such a way as to compensate the Kellers for the damages arising from the destruction of their property rights in the '117 patent.

CONCLUSION

The decision of the Eighth Circuit awarding damages to the Kellers for negligence resulting in the loss of their valuable property rights in the '117 patent does not conflict with federal patent policy. On the contrary, it furthers and supports the constitutional purpose of promoting the progress of science and the useful arts by securing to inventors their rightful rewards for meritorious developments.

Accordingly, the petition for certiorari should be denied.

Respectfully submitted,

MALCOLM L. MOORE
HERMAN H. BAINS
Williamson, Bains, Moore & Hansen
608 Building, Suite 668
Minneapolis, Minnesota 55402
(612) 332-2587
Attorneys for Respondents